

# **Extending the First Time Homebuyer Tax Credit**

Presented By:  
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## **Introduction:**

Earlier this year, the American Recovery and Reinvestment Act of 2009 was passed by Congress and signed by the President. The recovery package increased the value of the first-time homebuyer tax credit and extended the period over which the credit applies. A first-time homebuyer may claim an \$8,000 tax credit, which effectively reduces the purchase price of a home dollar for dollar. To qualify for the credit, the buyer must not have owned a principle residence in the last three years. In addition, the home must have been purchased after January 1, 2009, and before December 1, 2009, which is an eleven month timeframe.

## **Recent Economic Conditions:**

The United States has experienced the worst economic downturn since the Great Depression. Home prices have fallen significantly throughout the Philadelphia metropolitan area, and as a result household wealth has declined and the economy badly shaken. During the early part of this decade, residential home sales were fueled by financial innovations. Now, first-time homebuyers face additional obstacles when trying to receive an affordable mortgage. In addition, there is an excess of homes on the market due to foreclosures and homeowners being unable to sell their homes.

The weakness in the housing market has contributed to, and has been reinforced by, weakness in the overall economy. These conditions called for dramatic action to reverse the housing market. The first-time homebuyer tax credit has helped reduce the severity of the decline in the housing market and the economic downturn.

## **First-Time Homebuyer Tax Credit's Economic Impact on New Jersey and Policy Recommendation:**

The first-time home buyer tax credit has played a key role in recent market stabilization by bringing additional buyers into the market and generating more economic activity. The National Association of Realtors estimates that about 1.8 to 2.0 million first-time buyers will take advantage of the \$8,000 tax credit this year, with approximately 350,000 additional sales that would not have taken place without the credit. In the tri-state area thousands have taken advantage of the tax credit, including 67,000 in Pennsylvania and 45,700 in New Jersey.

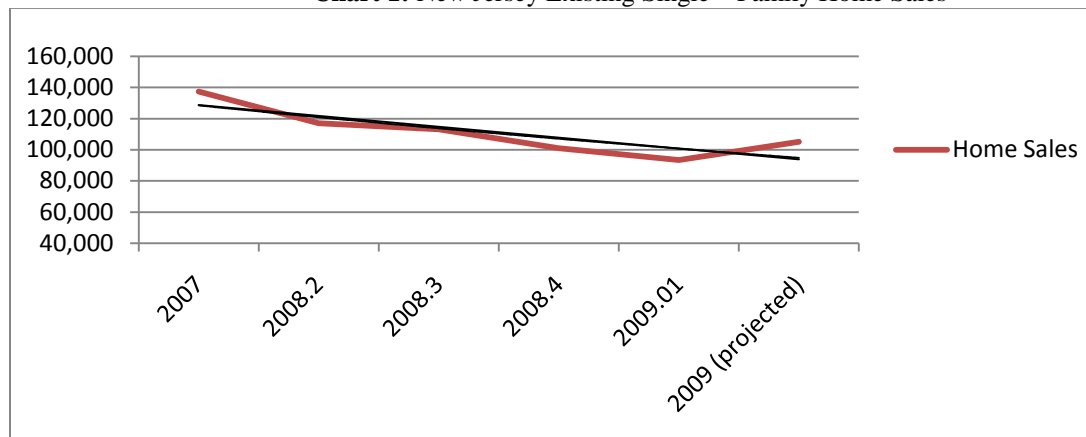
In New Jersey, predictions show that by December 1, 2009, there will be about 45,700 first-time buyers who will have claimed the credit. That is about 6,500 more than 2008. Sales have improved since the enactment of the recovery package. Furthermore, as home sales increase, the positive effect within the broader economy is being felt. The increased economic impact with the purchase of new homes spreads throughout the different areas of the marketplace.

In 2008, home sales in New Jersey were down by nearly 25,000 homes compared to 2007 levels. As sales decreased, the number of idling homes on the market increased and the production of new homes stopped. In New Jersey, existing home sales in 2008 were 112,350 and in the first

quarter of 2009 they were even lower at 93,400 at a seasonally adjusted annual rate. This level marks the last quarter before the tax credit went into effect.

With the tax credit, the new trajectory shows home sales in New Jersey could reach 105,200 for the year in 2009, a 12 percent increase from the first quarter this year. Extending the first-time homebuyer tax credit will offset the negative impact high unemployment and high foreclosure rates are having on the housing market.

**Chart 1:** New Jersey Existing Single – Family Home Sales



*Chart 1- Indicates that by the end of 2009, the first-time homebuyer tax credit will positively impact the housing market. The trend line shows that without the first-time homebuyer tax credit, single family housing sales would be almost 15,000 units below 2008 levels.*

In New Jersey, the decline in housing values has been significant. Between 2007 and the beginning of 2009 the average single family home in New Jersey fell by more than \$50,000. However, as New Jersey families benefit from the first-time homebuyers tax credit, the average price of a single family home in New Jersey increased by almost \$9,000.

**Chart 2:** New Jersey Price of Existing Single – Family Homes

2007	\$382,800
2008	\$373,240
2009.01(SDAR)	\$328,900
2009.02(SDAR)	\$337,400

*Chart 2 – Indicates that in only three months of homebuyers utilizing the first-time homebuyer tax credit, the value of single family homes is beginning to stabilize. Without the first-time homebuyer tax credit, the 2009 first quarter numbers show that home values would have fallen to a seasonally adjusted annual rate of \$328,900.*

**Advance the Tax Credit.** Congressman Adler is calling on House Leadership to extend the Tax Credit into next year. Currently, the tax credit will only be in effect for less than 8 months, meaning a limited number of people have taken advantage of the opportunity. If the tax credit is extended, based on the increase in home buyers who took advantage of the credit in 2009, we could expect to see a similar increase in sales.

## **Military Presence in New Jersey and Policy Recommendation:**

New Jersey has over 32,000 active duty, reserve, and national guard Servicemembers stationed at military installations throughout the state. This past June, New Jersey welcomed home 2,900 Army National Guardsmen from a 10-month deployment overseas. In addition to this large Army National Guardsmen contingency that came home in June, we have had constant deployments by Servicemembers from all our other branches of service. **America's servicemen and women who were deployed abroad have not been able to take advantage of the first-time homebuyer tax credit.** All of these men and women who have deployed overseas in service to our country deserve the same opportunity as all Americans to use the tax credit to purchase a home.

**HR 3590, the Service Members Home Ownership Tax Act.** The Senate should follow the House's lead and pass HR 3590, the Service Members Home Ownership Tax Act. This legislation will extend for one year the deadline for taking advantage of the first time homebuyer credit for qualifying service members. In addition, this legislation will ensure that service members will not have to repay the first-time home buyer credit if they are ordered to deploy and as a result are forced to sell their home within three years.

## **Alternative Policy Options:**

**Modify the Eligibility Criteria:** The tightening credit markets have slowed down the processing of mortgage papers and therefore, many individuals are stuck under contract and have not closed. Congress could extend the tax credit to people already under contract but not ready to close on their new home. In New Jersey, the time closing time on a home has increased from an average of between 30 and 45 days to over 60 days. This increase in time is keeping people from entering the market because they know they will not be able to access the tax credit before it expires on November 31, 2009.

**Modify the Tax Credit's Value:** The face value of the first-time homebuyer tax credit could be raised or lowered. Marginal homebuyers, defined as that group of households predicted to be most responsive to a tax credit, often need down payment and closing cost assistance. Therefore, the first-time homebuyer tax credit's value could be applied at different times of the closing process. For example, a homebuyer could use it for a down payment or for closing cost assistance.